

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|--------------------------------|---|-----------------|
| ADJUSTMENT OF GAS AND ELECTRIC |) | |
| RATES OF LOUISVILLE GAS AND |) | CASE NO. 90-158 |
| ELECTRIC COMPANY |) | |

O R D E R

On December 21, 1990, the Commission issued its Order authorizing the Louisville Gas and Electric Company ("LG&E") an increase in gas and electric rates. On January 29, 1991, the Commission granted rehearing to consider the following four issues that are now pending: adjusting capitalization to reflect the adjustment to accumulated depreciation, office supplies and expenses - Account No. 3-921, storm damage expenses, and downsizing costs.

The Commission established a procedural schedule authorizing discovery on the rehearing issues and held a hearing on April 24 - 25, 1991. Rehearing briefs were filed by LG&E, the Attorney General's office, Utility and Rate Intervention Division ("AG"), Jefferson County, Kentucky ("Jefferson"), and the Metro Human Needs Alliance, Inc. ("MHNA").

Adjusting Capitalization to Reflect the Adjustment to Accumulated Depreciation

In the December 21, 1990 Order the Commission determined the net original cost rate base for LG&E to be \$1,407,598,867.¹ Following its usual practice in calculating the rate base, the Commission adjusted the test-year-end accumulated depreciation to include the pro forma adjustment to depreciation expense accepted for rate-making purposes. The AG and MHNA sought rehearing on this issue, stating that in order to maintain a proper match between rate base and capitalization, LG&E's capitalization should have also been adjusted for the pro forma depreciation expense.

The AG stated that it was necessary to adjust the accumulated depreciation included in the determination of rate base for the pro forma adjustment to depreciation expense. The AG claimed that this adjustment must be made to avoid a mismatch between the utility plant and the accumulated depreciation used in rate base. The AG argued that when capitalization is used to determine revenue requirements, as was done in this case, any adjustments which impact rate base need to be evaluated to determine if capitalization needs to be similarly adjusted, and this adjustment is needed in LG&E's situation because, without such an adjustment, LG&E would reap a windfall from its ratepayers.

MHNA stated that this issue arose due to the Commission's allowance of depreciation expense on 75 percent of the Trimble County Unit 1 ("Trimble County") construction work in progress

¹ December 21, 1990 Order, page 11.

balance as of the end of the test year.² MHNA contends that because the revenue requirements were determined using capitalization instead of rate base, the adjustment to rate base is totally meaningless without a corresponding adjustment to capitalization. MHNA believes the Commission should partially offset the rate increase attributable to Trimble County by adjusting LG&E's capitalization downward by the amount of the Trimble County depreciation expense allowed for rate-making. MHNA states that making this adjustment will offset a small portion of the depreciation expense granted by the Commission.

LG&E stated that in prior cases the Commission has adjusted the accumulated depreciation component of the rate base for the proforma adjustment to depreciation expense. In this case, LG&E proposed a similar adjustment in the calculation of its rate base. Concerning the proposal to adjust capitalization for the depreciation adjustment, LG&E cited several reasons why the Commission should not adopt the adjustment. LG&E stated that adjusting the capitalization to reflect the depreciation adjustment would have the effect of projecting the capitalization beyond the end of the test year, which LG&E believes would be contrary to the Commission's long-standing practice of not allowing post test-year adjustments to capitalization. LG&E noted that its rate base already exceeds capitalization by \$52.1 million and that the proposed adjustment would increase that difference in

² MHNA Rehearing Brief, filed June 14, 1991, page 1.

the amount of \$14.4 million.³ LG&E pointed out that neither the AG nor MHNA cited any precedent from this Commission or any other regulatory commission in support of their proposal, and LG&E is unaware of any such precedent.

The Commission, after reviewing the record, finds that no party to this proceeding opposes the Commission's practice of reflecting the pro forma depreciation expense adjustment in the level of accumulated depreciation utilized in the determination of net original cost rate base and there is no reason to modify this practice in this rate case.

It is not appropriate to adjust LG&E's test-year-end capitalization by the amount of the pro forma adjustment to depreciation expense. The proposed adjustment to capitalization relates to a jurisdictional asset which is in rate base and is dedicated to providing service to retail customers. The adjustment made to capitalization in the December 21, 1990 Order to reflect the 25 percent disallowance of Trimble County was quite different. This latter adjustment was necessary to reflect the non-jurisdictional status of the 25 percent of Trimble County which is neither in rate base nor dedicated to provide service to retail customers.

In determining LG&E's revenue requirements, the Commission utilized a historic, not projected, test year and established an authorized rate of return based on test-year-end capitalization.

³ LG&E Post-Rehearing Brief, filed June 14, 1991, page 31.

There are numerous adjustments to LG&E's rate base, reflecting items such as cash working capital, gas stored underground, and depreciation of Trimble County, where the Commission has consistently not made corresponding adjustments to capitalization. Neither the AG nor MHNA was able to cite any precedent from this Commission or any other regulatory commission to support the proposed adjustment to capitalization.

The Commission previously denied LG&E's proposal to increase capitalization to reflect Trimble County plant additions subsequent to the test year. Consequently, the allegation of an LG&E "windfall" is not valid. LG&E will have an opportunity to earn a return on only its capital used to support plant in service.

If the Commission were to consider the use of a projected level of capitalization for LG&E, it would not be appropriate to review, in isolation, only one pro forma expense adjustment as proposed by the AG and MHNA. Numerous pro forma adjustments were made to the revenues and expenses of LG&E. Other factors, such as future issuances of stock and debt, also influence the projection of capitalization in a forecasted test year case. The adjustment proposed by the AG and MHNA reflects only the impact on capitalization of the pro forma adjustment to depreciation expense and fails to reflect the impact of all other pro forma adjustments.

The Commission finds no merit in MHNA's argument that it is meaningless to adjust rate base without making a corresponding adjustment to capitalization. There is no statutory or case law

requirement that rate base be equal to capitalization or that there even be a reconciliation of rate base to capitalization. In almost every rate case in recent history involving an investor-owned utility, the Commission has established a rate base that does not equal capitalization. In the present case, the Commission established LG&E's rate base at approximately \$52.1 million above its capitalization.

For all these reasons, the Commission finds that its original decision regarding this matter should be sustained.

Office Supplies and Expenses - Account No. 3-921

Both the AG and Jefferson requested rehearing on Account No. 921, generally stating that improper expenses were included and that a further review was necessary. Rehearing was granted to review the reasonableness of those expenses and determine the reasons for "zeroed out" Account No. 3-921 balances.

LG&E explained that Account No. 3-921 is the "common" subaccount of Account No. 921. Most of the expenses charged to office supplies and expenses are initially recorded in Account No. 3-921 and then allocated to either the "electric" or "gas" subaccounts of Account No. 921 as appropriate. The "zeroed out" balances reflect this allocation process. LG&E listed certain minimal test-year expenses that were characterized as customary business expenses which if removed for rate-making purposes, LG&E would not contest.⁴ Also listed were test-year expenses which LG&E through inadvertence had not removed, but believed should be

⁴ Fowler Rehearing Testimony, Schedule D.

excluded for rate-making purposes.⁵ The total of these two lists produces a downward adjustment to Account No. 3-921 of \$38,439. LG&E also explained that its expenses were often allocated over several accounts as well as between electric and gas operations. Thus, an amount recorded in a subaccount of Account No. 921 may only represent a portion of the total amount of the transaction.

The AG and Jefferson challenged several of the charges included in Account No. 921 as being inappropriate for rate-making purposes. The AG and Jefferson proposed that LG&E's expenses be reduced an additional \$533,420, which included transactions recorded in Account No. 921 and 13 other accounts. Jefferson also proposed a reduction of \$1,611,000 relating to LG&E's diversity power agreements.

We have reviewed the expenses in Account No. 3-921 and find several that fall within the original scope of the rehearing and should be removed from the test year. In addition, because LG&E does allocate expenses over several accounts, we also believe that expenses in other accounts that are an allocation of expenses removed from Account No. 3-921 should also be removed. The identified expenses are unreasonable and are removed for rate-making purposes because they relate to: charges LG&E indicated that it would not contest if removed for rate-making purposes; changes in LG&E corporate policy relating to professional organization memberships; non-recurring expenses not allowable for rate-making purposes; expenses for items which

⁵ Id., Schedule E.

enhanced LG&E's corporate image; and expenses which LG&E did not offer an adequate reason for inclusion for rate-making purposes. In all, LG&E's operating expenses should be reduced by \$65,581.⁶

Storm Damage Expenses

The Commission found that a reasonable, on-going level of storm damage expense should be determined by using a 10-year average of actual expenses, adjusted for inflation.⁷ LG&E stated it could not understand why the 5-year average method used in its last rate case was not used and that for the sake of consistency with prior Orders the Commission should continue to use the 5-year average method. The AG and Jefferson objected to the inclusion of the total 1987 storm damage expense in the calculation.

Jefferson contended that the level of storm damage expense incurred in 1987 was not only abnormal, but a very special and non-recurring event. Jefferson argued that the inclusion of this non-recurring event in a 10-year average skewed the results and would impact the calculation of storm damage expense for several years in the future. Jefferson advocated using a figure for 1987 which was net of the expenses incurred for a series of storms in July 1987. Jefferson further argued that LG&E already had the opportunity to recover the majority of the July 1987 storm damage expense. The AG simply stated that the storm damage expense must be normalized in fairness to the ratepayers.

⁶ See Appendix B, attached hereto and incorporated herein by reference.

⁷ December 21, 1990 Order, page 30.

Contrary to Jefferson's argument, the purpose of the adjustment is not to provide a recovery of any particular prior year's expense. Rather, the purpose is to determine a reasonable, on-going level of expense based on actual historic experience.

Obviously, if the level of storm damage expense could be predicted, there would be no need to review historic levels. However, past experience clearly shows that storm damage expense varies greatly from year to year and cannot be predicted with any degree of certainty. For this reason the Commission utilizes a 10-year average of actual expenses incurred. If the historic expense levels are adjusted for amounts alleged to be "abnormal," the resulting average is no longer representative of historic levels.

The use of the 10-year average adjusted for inflation recognizes that major storms occur on an infrequent basis and smooths these costs out over time through the averaging process. Basing the adjustment on the actual historic expenses is consistent with the adjustment allowed in LG&E's prior rate case. The only difference is an enlargement of the average from 5 to 10 years, with an inflation adjustment. Using a 10-year period results in a more representative average by flattening the peaks and raising the valleys. For these reasons the Commission affirms its original decision that 10 years' experience should be used to obtain an average that reflects a reasonable, ongoing level of expense.

Downsizing Costs

In November 1989, LG&E announced a new organizational structure consisting of fewer layers of management and increased spans of control, which resulted in the elimination of approximately 150 positions at LG&E. In order to achieve this new structure, LG&E offered a one-time early retirement program with enhanced benefits. This restructuring was referred to as "downsizing" by LG&E. In the December 21, 1990 Order, the Commission removed the entire test-year expenses of \$9,486,550 related to the downsizing of LG&E, finding that these expenses had already been recovered from the ratepayers and that the expenses were of a non-recurring nature.⁸ LG&E claims that this holding would discourage utilities in Kentucky from expending resources today in order to secure future benefits for ratepayers. LG&E challenged the Commission's finding that the downsizing expenses had already been recovered from ratepayers, claiming that this expense was not incorporated into the rates authorized in LG&E's last general rate case.

LG&E stated that the downsizing was a response to a changing business environment rather than evidence of prior management imprudence in maintaining an excessive or inefficient work force. Downsizing avoided morale problems inherent in layoffs, produced benefits which were substantial and immediate, and was the approach used by several utilities in response to changing business environments. LG&E stated that the fact that downsizing

⁸ Id., pages 28 and 29.

was not a recurring expense did not justify disallowing the prudently incurred expense which provided on-going cost savings. LG&E cited decisions by this Commission and other regulatory commissions where the expenses of workforce reduction programs were amortized over a period of time and included in rates. LG&E stated that its ratepayers have been receiving the full benefit of the downsizing cost savings since January 1, 1991, but its shareholders have not recovered any of the expenses from the ratepayers. LG&E argued for a 3-year amortization period for the downsizing costs, claiming that 3 years is the standard amortization period used by this and other commissions. LG&E also claimed that a 3-year amortization allows for a sharing of the expenses between its shareholders and ratepayers. Under LG&E's proposal, the annual amortization expense would be \$3,162,183.⁹

The AG argued that downsizing costs should not be permitted, contending that LG&E was overstaffed and attempted to reduce its work force to eliminate the overstaffing. The AG contends that ratepayers have already paid for this overstaffing through excessive rates, and should not now be asked to pay the additional cost of removing the excess employees from the payroll. The AG disagreed with LG&E's argument that it needs incentives to be efficient, arguing instead that the reward for efficiency is a reasonable profit and the penalty for inefficiency could be a net loss. Jefferson argued that downsizing eliminated unnecessary employees, that ratepayers had paid higher rates in the past due

⁹ \$9,486,550 ÷ 3 years = \$3,162,183.

to these unnecessary employees, and that LG&E was now asking that the ratepayer pay for eliminating these employees.

When determining the appropriate rate-making treatment for non-recurring expenses, the Commission first will examine the accounting treatment used to record the transaction. If the item was recorded as an expense in the test period, we usually find that the expense had been recovered, even though the expense was not specifically included in the determination of the rates that were charged to ratepayers during the test period. In such case, the investigation proceeds no further. Relative to downsizing costs, LG&E expensed these costs in the test period rather than recording them as a deferred debit. It was from this perspective that the Commission originally evaluated and rejected LG&E's proposal to amortize its test-year downsizing costs.

LG&E stated that the recovery of the downsizing costs should not be contingent upon whether the costs were recorded as a current expense or as a deferred debit. In fact, LG&E argued that, absent prior approval from the Commission, it had no choice but to follow Generally Accepted Accounting Principles and record the costs as expenses in the current period as required by Financial Accounting Standards Board Statement No. 88.¹⁰ Given the materiality of the downsizing costs, it would have been preferable for LG&E to have sought advice and guidance from the Commission for the accounting treatment of those costs.

¹⁰ LG&E's response to the Commission's Order dated March 28, 1991, Item 2, page 3.

Other factors besides the accounting treatment may determine the proper rate-making treatment for non-recurring expenses. Based upon a reconsideration of all the evidence, the Commission is persuaded that such factors should be considered, given the special circumstances associated with LG&E's downsizing. LG&E undertook its downsizing in the last quarter of 1989; however, the rates charged to ratepayers reflected neither the costs nor the savings from the downsizing until the rates authorized in the December 21, 1990 Order took effect January 1, 1991. The \$9,486,550 in downsizing costs represented approximately 7.8 percent¹¹ of the test-year actual net operating income of \$121,674,031.¹² LG&E has testified that the annual savings from downsizing would be \$4.5 million in operation and maintenance expenses and \$3.5 million in construction expenses, and included the savings in labor costs as a pro forma adjustment in this case. Consequently, LG&E's current rates now reflect these savings in labor costs. The Commission believes it is clear that these savings should benefit both the ratepayers and shareholders of LG&E in the future, and it is therefore appropriate for the Commission to consider the costs as well.

The overstaffing arguments appear to rely solely on the premise that LG&E undertook downsizing as an admission by LG&E that it was overstaffed and previously incurred excessive labor costs. However, the record does not contain any studies or

¹¹ $\$9,486,550 \div \$121,674,031 = 7.796$ percent.

¹² December 21, 1990 Order, page 17.

analyses to demonstrate that LG&E's prior workforce level was imprudent or that it was even overstaffed. LG&E implemented an extensive corporate restructuring in November 1989 as part of a 5-year business plan to be more responsive to customer needs and provide greater value to customers. The restructuring resulted in fewer levels of management and increased spans of control. In dealing with cost cutting measures such as the test-year downsizing costs, the Commission must be concerned that its treatment of costs incurred to implement cost cutting measures not appear as a disincentive to the utility.

The Commission finds that, for rate-making purposes, amortization of some of the downsizing costs is appropriate. The Commission remains convinced that, in general, non-recurring costs which are expensed should not be considered for rate-making purposes. However, in this instance the Commission is recognizing the material nature of the costs, the future benefits of downsizing which should be available to the ratepayers and shareholders of LG&E, and the matching of those benefits with the costs.

The Commission is not persuaded that the entire \$9,486,550 should be amortized nor that the amortization period only be 3 years. Included in the \$9,486,550 test-year costs is \$2,009,275 related to LG&E's Supplemental Executive Retirement Plan ("SERP"). The Commission has heretofore excluded the SERP expenses for LG&E's current labor force.¹³ Since LG&E has not adequately

¹³ Id., page 27.

explained why SERP-related downsizing costs should be included in the amortization, the Commission will exclude those costs in the amount to be amortized.

It is appropriate to amortize the allowable downsizing costs which reflect an immediate cash outlay, consisting of the severance payments offset by the gain on the pension annuities, over a 3-year period. For the qualified retirement plan and post-retirement hospitalization coverage costs which reflect accounting accruals, which LG&E has stated could have future cash outlays for at least 10 years,¹⁴ the use of a 10-year amortization period is reasonable. However, the Commission will not include the unamortized balance of the downsizing costs in rate base. To allow for amortization of the costs and a return on the unamortized portion would inappropriately shift the costs of downsizing solely to the ratepayers. Since both the ratepayers and shareholders should enjoy future benefits from downsizing, it is appropriate that the costs should be shared. Such a sharing can be accomplished by excluding any return on the unamortized portion of the downsizing costs. Based on the evidence of record, the Commission has determined that downsizing costs of \$7,477,275 should be amortized, with an annual amortization expense in the first year of \$987,264.¹⁵

¹⁴ Fowler Rehearing Testimony, Schedule A.

¹⁵ See Appendix C, attached hereto and incorporated herein by reference.

The Commission has allowed amortization in this case, and expects that both LG&E's ratepayers and shareholders will continue to enjoy future benefits from the reduced staffing levels achieved through downsizing. The Commission will monitor and scrutinize LG&E's management of its workforce, particularly any future increase in staffing levels which may tend to mitigate the benefits achieved by the downsizing. In future rate case proceedings the Commission may reconsider the continuation of the amortization if the evidence suggests that LG&E has not continued to ensure that its workforce levels are properly controlled and aggressively managed.

Cane Run Unit No. 3

In its rehearing brief, Jefferson raised, for the first time since the issuance of the December 21, 1990 Order, a complaint concerning the process of selecting a consultant to study LG&E's Cane Run Unit No. 3 ("Cane Run 3"), and requested that the Commission order LG&E to follow through on its pledge to undertake an independent study with the low bidder that had been selected.

The study of Cane Run 3 was not an issue in this rehearing, and no evidence was presented on which the Commission could make any decision. Jefferson's request is denied.

Revenue Requirements

The total additional revenues required for LG&E have been recomputed to reflect the Commission's Orders of December 21, 1990, January 29, 1991, and February 22, 1991, and the Account No.

3-921 and downsizing amortization adjustments explained herein.¹⁶
A breakdown between electric and gas operations of the revised total operating income and the increase in total revenue allowed is as follows:

| | <u>Electric</u> | <u>Gas</u> | <u>Total</u> |
|---|---------------------|-------------------|---------------------|
| Net Operating Income Found Reasonable | \$120,853,015 | \$13,142,855 | \$133,995,870 |
| Adjusted Net Operating Income | <u>117,149,980</u> | <u>12,707,237</u> | <u>129,857,217</u> |
| Net Operating Income Deficiency | 3,703,035 | 435,618 | 4,138,653 |
| Gross Up Revenue Factor for Taxes (1.00-.39445) | .60555 | .60555 | .60555 |
| Additional Revenue Required | <u>\$ 6,115,160</u> | <u>\$ 719,376</u> | <u>\$ 6,834,536</u> |

The revenues granted will provide a rate of return on the net original cost rate base of 9.52 percent and an overall return on total capitalization of 9.89 percent. The increase will result in gross operating revenues, based on the adjusted test year, of \$692,519,449. These operating revenues include \$508,504,041 in electric revenues and \$184,015,408 in gas revenues. The rates and charges in Appendix A are designed to produce the increase of \$921,683 granted herein. The rates and charges in Appendix A are the fair, just, and reasonable rates for LG&E. However, since the electric rates reflect the fuel cost component approved in Case

¹⁶ The Commission's January 29, 1991 Order increased gross revenues due to the inclusion of previously excluded legal invoices; the February 22, 1991 Order reduced gross revenues due to a correction in the calculation of federal and state income taxes.

No. 90-364¹⁷ and the gas rates reflect the gas cost component approved in Case No. 90-158-C,¹⁸ the gross operating revenues produced by the rates in Appendix A will differ from the amounts stated herein.

A reconciliation of the gross operating revenues is as follows:

| | <u>Electric</u> | <u>Gas</u> | <u>Total</u> |
|---|----------------------|----------------------|----------------------|
| Gross Operating Revenues, per the December 21, 1990 Order | \$507,840,639 | \$183,820,519 | \$691,661,158 |
| Adjustment for Legal Expenses | <u>33,706</u> | <u>9,078</u> | <u>42,784</u> |
| Gross Operating Revenues, per the January 29, 1991 Order | 507,874,345 | 183,829,597 | 691,703,942 |
| Adjustment for Income Tax Correction | <u>(96,406)</u> | <u>(9,770)</u> | <u>(106,176)</u> |
| Gross Operating Revenues, per the February 22, 1991 Order | 507,777,939 | 183,819,827 | 691,597,766 |
| Additional Revenues Granted Herein ¹⁹ | <u>726,102</u> | <u>195,581</u> | <u>921,683</u> |
| Gross Operating Revenues | <u>\$508,504,041</u> | <u>\$184,015,408</u> | <u>\$692,519,449</u> |

¹⁷ Case No. 90-364, An Examination by the Public Service Commission of the Application of the Fuel Adjustment Clause of Louisville Gas and Electric Company From November 1, 1988 to October 31, 1990, Order dated April 4, 1991.

¹⁸ Case No. 90-158-C, The Notice of Purchased Gas Adjustment Filing of Louisville Gas and Electric Company, Order dated July 31, 1991.

¹⁹ The allocation between Electric and Gas operations reflects the effects of computer rounding.

IT IS THEREFORE ORDERED that:

1. The rates set forth in Appendix A, attached hereto and incorporated herein, be and they hereby are approved for service rendered by LG&E on and after the date of this Order.

2. Within 30 days of the date of this Order, LG&E shall file its revised tariff sheets reflecting the rates approved herein.

Done at Frankfort, Kentucky, this 30th day of September, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

Commissioner

ATTEST:


Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-158 DATED 9/30/91

The following rates and charges are prescribed for the customers in the area served by Louisville Gas and Electric Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

ELECTRIC SERVICE

The energy charges reflect the base fuel cost as approved in Case No. 90-364.

RESIDENTIAL RATE (RATE SCHEDULE R)

RATE:

Customer Charge: \$3.29 per meter per month

Winter Rate: (Applicable during 8 monthly billing periods of October through May)

| | |
|-------------------------------------|----------------|
| First 600 kilowatt-hours per month | 5.811¢ per KWH |
| Additional kilowatt-hours per month | 4.488¢ per KWH |

Summer Rate: (Applicable during 4 monthly billing periods of June through September)

| | |
|-------------------------------------|----------------|
| First 600 kilowatt-hours per month | 6.299¢ per KWH |
| Additional kilowatt-hours per month | 6.473¢ per KWH |

WATER HEATING RATE (RATE SCHEDULE WH)

RATE:

Customer Charge: \$0.93 per meter per month.

| | |
|------------------------------|----------------|
| All kilowatt-hours per month | 4.242¢ per KWH |
|------------------------------|----------------|

GENERAL SERVICE RATE
(RATE SCHEDULE GS)

RATE:

Customer Charge:

\$3.89 per meter per month for single-phase service

\$7.78 per meter per month for three-phase service

Winter Rate: (Applicable during 8 monthly billing periods
of October through May)

All kilowatt-hours per month 6.222¢ per KWH

Summer Rate: (Applicable during 4 monthly billing periods
of June through September)

All kilowatt-hours per month 7.007¢ per KWH

SPECIAL RATE FOR ELECTRIC SPACE HEATING SERVICE
RATE SCHEDULE GS

RATE:

Customer Charge: \$2.25

For all consumption recorded on the separate meter during the heating season the rate shall be 4.471¢ per kilowatt-hour.

LARGE COMMERCIAL RATE
(RATE SCHEDULE LC)

RATE:

Customer Charge: \$17.11 per delivery point per month

Demand Charge:

Secondary
Distribution

Primary
Distribution

Winter Rate: (Applicable
during 8 monthly billing
periods of October through
May)

All kilowatts of billing
demand

\$7.34 per KW
per month

\$5.69 per KW
per month

Summer Rate: (Applicable
during 4 monthly billing
periods of June through
September)

| | | |
|---------------------------------|--------------------------|-------------------------|
| All kilowatts of billing demand | \$10.45 per KW per month | \$8.54 per KW per month |
|---------------------------------|--------------------------|-------------------------|

Energy Charge:

| | |
|------------------------------|--------|
| All kilowatt-hours per month | 3.040¢ |
|------------------------------|--------|

LARGE COMMERCIAL TIME-OF-DAY RATE

RATE:

Customer Charge: \$19.13 per delivery point per month

Demand Charge:

| | |
|---------------------------|-------------------------|
| Basic Demand Charge | |
| Secondary Distribution | \$3.72 per KW per month |
| Primary Distribution | \$2.01 per KW per month |
| Peak Period Demand Charge | |
| Summer Peak Period | \$6.72 per KW per month |
| Winter Peak Period | \$3.58 per KW per month |

Energy Charge: 3.040¢ per KWH

INDUSTRIAL POWER
(RATE SCHEDULE LP)

RATE:

Customer Charge: \$42.33 per delivery point per month

Demand Charge:

| | | | |
|---|---|---------------------------------------|------------------------------------|
| | <u>Secondary</u> <u>Distribution</u> | <u>Primary</u> <u>Distribution</u> | <u>Transmission</u> <u>Line</u> |
| <u>Winter Rate:</u> (Applicable during 8 monthly billing periods of October through May) | | | |

| | | | |
|---------------------------------|-------------------------|-------------------------|-------------------------|
| All kilowatts of billing demand | \$8.22 per KW per month | \$6.26 per KW per month | \$5.05 per KW per month |
|---------------------------------|-------------------------|-------------------------|-------------------------|

Summer Rate: (Applicable
during 4 monthly billing
periods of June through
September)

| | | | |
|------------------------------------|-----------------------------|----------------------------|----------------------------|
| All kilowatts of billing demand | \$10.84 per KW per month | \$8.91 per KW per month | \$7.68 per KW per month |
|------------------------------------|-----------------------------|----------------------------|----------------------------|

Energy Charge:

| | |
|------------------------------|----------------|
| All kilowatt-hours per month | 2.612¢ per KWH |
|------------------------------|----------------|

INTERRUPTIBLE SERVICE

RATE:

The monthly bill for service under this rider shall be determined in accordance with the provisions of either Rate LC, Rate LC-TOD, Rate LP, or Rate LP-TOD, except there shall be an interruptible demand credit of \$3.30 per kilowatt per month.

INDUSTRIAL POWER TIME-OF-DAY RATE
(RATE SCHEDULE LP-TOD)

RATE:

Customer Charge: \$44.29 per delivery point per month

Demand Charge:

Basic Demand Charge:

| | |
|------------------------|-------------------------|
| Secondary Distribution | \$5.31 per KW per month |
| Primary Distribution | \$3.34 per KW per month |
| Transmission Line | \$2.13 per KW per month |

Peak Period Demand Charge:

| | |
|--------------------|-------------------------|
| Summer Peak Period | \$5.57 per KW per month |
| Winter Peak Period | \$2.95 per KW per month |

Energy Charge: 2.612¢ per KWH

OUTDOOR LIGHTING SERVICE
(RATE SCHEDULE OL)

RATE:

| <u>Rate Per Month Per Unit</u> | | |
|-----------------------------------|---|--|
| | <u>Installed Prior to</u> <u>January 1, 1991</u> | <u>Installed After</u> <u>December 31, 1990</u> |
| <u>Overhead Service</u> | | |
| <u>Mercury Vapor</u> | | |
| 100 watt* | \$ 6.89 | |
| 175 watt | 7.77 | \$ 9.16 |
| 250 watt | 8.79 | 10.22 |
| 400 watt | 10.65 | 12.21 |
| 1000 watt | 19.34 | 21.94 |
| <u>High Pressure Sodium Vapor</u> | | |
| 100 watt | \$ 7.65 | \$ 7.65 |
| 150 watt | 9.78 | 9.78 |
| 250 watt | 11.53 | 11.53 |
| 400 watt | 12.12 | 12.12 |
| <u>Underground Service</u> | | |
| <u>Mercury Vapor</u> | | |
| 100 Watt - Top Mounted | \$12.04 | \$12.77 |
| 175 Watt - Top Mounted | 12.78 | 13.74 |
| <u>High Pressure Sodium Vapor</u> | | |
| 70 Watt - Top Mounted | \$10.72 | \$10.72 |
| 100 Watt - Top Mounted | 14.16 | 14.16 |
| 150 Watt | 19.29 | 19.29 |
| 250 Watt | 22.10 | 22.10 |
| 400 Watt | 24.27 | 24.27 |

* Restricted to those units in service on 5-31-79.

PUBLIC STREET LIGHTING SERVICE
(RATE SCHEDULE PSL)

RATE:

| <u>Type of Unit</u> | <u>Rate Per Month Per Unit</u> | |
|--|---|--|
| | <u>Installed Prior to January 1, 1991</u> | <u>Installed After December 31, 1990</u> |
| Overhead Service | | |
| <u>Mercury Vapor</u> | | |
| 100 watt (open bottom fixture) | \$ 6.19 | |
| 175 watt | 7.22 | \$ 8.98 |
| 250 watt | 8.19 | 10.05 |
| 400 watt | 9.76 | 12.04 |
| 400 watt (underground pole) | 14.17 | |
| 1000 watt | 18.03 | 21.69 |
| <u>High-Pressure Sodium Vapor</u> | | |
| 100 watt | \$ 7.40 | \$ 7.40 |
| 150 watt | 8.84 | 8.84 |
| 250 watt | 10.57 | 10.57 |
| 400 watt | 10.94 | 10.94 |
| <u>Underground Service</u> | | |
| <u>Mecury Vapor</u> | | |
| 100 watt - Top Mounted | \$10.14 | \$12.51 |
| 175 watt - Top Mounted | 11.06 | 13.56 |
| 175 watt | 15.04 | 21.40 |
| 250 watt | 16.04 | 22.47 |
| 400 watt | 18.83 | 24.46 |
| 400 watt - on State of KY Pole | 11.06 | |
| <u>High Pressure Sodium Vapor</u> | | |
| 70 watt - Top Mounted | \$10.72 | \$10.72 |
| 100 watt - Top Mounted | 11.13 | 11.13 |
| 150 watt | 19.28 | 19.28 |
| 250 watt | 20.42 | 20.42 |
| 250 watt - on State of KY Pole | 10.38 | |
| 400 watt | 21.81 | 21.81 |
| <u>Incandescent</u> | | |
| 1500 Lumen | \$ 8.27 | |
| 6000 Lumen | 10.82 | |

STREET LIGHTING ENERGY RATE
(RATE SCHEDULE SLE)

RATE:

3.874¢ per kilowatt-hour

TRAFFIC LIGHTING ENERGY RATE
(RATE SCHEDULE TLE)

RATE:

Customer Charge: \$2.45 per meter per month

All kilowatt-hours per month 4.888¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
CARBON GRAPHITE SPECIAL CONTRACT

Demand Charge

Primary Power (28,500 KW) \$11.83 per KW per month
Secondary Power (Excess KW) \$5.91 per KW per month

Demand Credit for Primary
Interruptible Power (24,500 KW) \$3.30 per KW per month

Energy Charge
All KWH 1.844¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
E. I. DUPONT DE NEMOURS SPECIAL CONTRACT

Demand Charge

\$11.16 per KW of billing demand per month

Energy Charge

1.912¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
FORT KNOX SPECIAL CONTRACT

Demand Charge

Winter Rate:
(Applicable during 8 monthly billing periods of October
through May)

All KW of Billing Demand \$6.33 per KW per month

Summer Rate:

(Applicable during 4 monthly billing periods of June through September)

All KW of Billing Demand \$8.54 per KW per month

Energy Charge: All KWH per month 2.506¢ per KWH

SPECIAL CONTRACT FOR ELECTRIC SERVICE
LOUISVILLE WATER COMPANY SPECIAL CONTRACT

Demand Charge

\$7.63 per KW of billing demand per month

Energy Charge

2.038¢ per KWH

GAS SERVICE

The Gas Supply Cost component in the following rates has been adjusted to incorporate all changes through Case No. 90-158-C.

GENERAL GAS RATE

G-1

RATE:

Customer Charge:

\$4.48 per delivery point per month for residential service

\$8.96 per delivery point per month for non-residential service

Charge Per 100 Cubic Feet:

Distribution Cost Component 11.099¢

Gas Supply Cost Component 18.914¢

Total Charge Per 100
Cubic Feet 30.013¢

SUMMER AIR CONDITIONING SERVICE UNDER GAS RATE G-1

RATE:

The rate for "Summer Air Conditioning Consumption," as described in the manner hereinafter prescribed, shall be as follows:

Charge Per 100 Cubic Feet:

| | |
|---------------------------------|----------------|
| Distribution Cost Component | 6.099¢ |
| Gas Supply Cost Component | <u>18.914¢</u> |
| Total Charge Per 100 Cubic Feet | 25.013¢ |

GAS TRANSPORTATION SERVICE/STANDBY
RATE TS

RATE:

In addition to any and all charges billed directly to Company by other parties related to the transportation of customer-owned gas, the following charges shall apply:

Administrative Charge: \$90.00 per delivery point per month

| | <u>G-1</u> | <u>G-6</u> |
|--------------------------------------|--------------|--------------|
| Distribution Charge Per Mcf | \$1.1099 | \$0.5300 |
| Pipeline Supplier's Demand Component | <u>.2498</u> | <u>.2498</u> |
| Total | \$1.3597 | \$0.7798 |

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-158 DATED 9/30/91

All of the following expenditures were recorded in Account No. 921 except those identified by an asterisk (*) which are allocations to other accounts of a portion of expenditures recorded in Account No. 921.

| <u>Description</u> | <u>Note</u> | <u>Amount</u> |
|---|-------------|---------------|
| LG&E Rehearing Testimony - Fowler Schedules D & E | | \$38,439 |
| Sales taxes related to Fowler Schedules B & D | A | 512 |
| Fees and refreshments - Boy Scouts | B | 115 |
| Coupon booklet for car washes | B | 66 |
| *KU - reimbursement on apartment | B | 6,117 |
| *Jefferson Club dinner and expenses | B | 762 |
| *Metro United Way - various expenses | B | 457 |
| Shirts to managers - planning meeting | B | 333 |
| Holiday Celebration expenses | B | 645 |
| *Choral Club - blazer expense | B | 161 |
| Hikes Point Optimist Dues | B | 23 |
| *Haunted House charity project | B | 1,981 |
| Tour expenses - Junior Achievement | B | 165 |
| Advertisement - Business First - Jr. Achievement | B | 400 |
| Dues - Focus Louisville Alumni Group | B | 315 |
| Dues and expenses - Leadership Louisville | C | 3,338 |
| Dues - Leadership Kentucky Alumni | C | 50 |
| Dues and expenses - Rotary Club | D | 872 |
| Dues - Louisville Jaycees | D | 145 |
| Dues and expenses - Kiwanis Club | D | 406 |
| Individual memberships - Chambers of Commerce | E | 1,673 |
| Airline tickets - recruitment & relocation | F | 5,582 |
| Recycling program - costume rental & art work | F | 139 |
| Purch. Man. Assoc. of Lou. Seller/Buyer Awards | G | 175 |
| Christmas cards | G | 111 |
| *Christmas cards for Economic Development | G | 584 |
| National Conference of Christians and Jews | G | 250 |
| Sports bags | G | 100 |
| Minority Enterprise Development Awards Banquet | G | 320 |
| Speed Museum event | H | 200 |
| Flowers for retired employee's funeral | H | 33 |
| Handouts to LG&E managers - planning meeting | H | 812 |
| Corporate table - Women of Achievement Banquet | H | 300 |
| Total Adjustment | | \$65,581 |
| Electric Portion at 79% | | \$51,809 |
| Gas Portion at 21% | | \$13,772 |

See page 2 for a description of Notes.

Notes:

- A - See response to Item 10, March 28, 1991 Order**
- B - Expense similar to type removed on Fowler Schedule D**
- C - Organization similar in function and purpose to Focus Louisville Alumni Group**
- D - See response to Item 18, March 28, 1991 Order; related expenses excluded**
- E - See Transcript of Evidence, Vol. II, April 25, 1991, page 13**
- F - Non-recurring expense not allowable for rate-making purposes**
- G - Maintain or enhance corporate image, institutional advertising**
- H - No adequate reason offered for including for rate-making**

APPENDIX C

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-158 DATED 9/30/91

The following schedule shows how the Commission's adjustment for the amortization of Downsizing Costs was determined:

Costs Allowed for Amortization:

| <u>Item</u> | <u>Electric</u> | <u>Gas</u> | <u>Total</u> |
|---|--------------------|--------------------|--------------------|
| Severance Payments | \$4,490,218 | \$1,193,603 | \$5,683,821 |
| Gain on Pension Annuities | (3,679,218) | (978,020) | (4,657,238) |
| Qualified Retirement Plan - Non-Union | 3,312,799 | 880,618 | 4,193,417 |
| Post-Retirement Hospital- ization Coverage | <u>1,783,247</u> | <u>474,028</u> | <u>2,257,275</u> |
| Totals | <u>\$5,907,046</u> | <u>\$1,570,229</u> | <u>\$7,477,275</u> |

Calculation of Amortization Adjustment:

| | | | |
|---|----------------|----------------|------------------|
| Three-Year Amortization - Severance Payments | \$4,490,218 | \$1,193,603 | \$5,683,821 |
| Gain on Pension Annuities | (3,679,218) | (978,020) | (4,657,238) |
| Total | <u>811,000</u> | <u>215,583</u> | <u>1,026,583</u> |

| | | | |
|---|----------------|---------------|----------------|
| Annual Amortization (Divided by 3 Years) | <u>270,333</u> | <u>71,861</u> | <u>342,194</u> |
|---|----------------|---------------|----------------|

| | | | |
|---|------------------|------------------|------------------|
| Ten-Year Amortization - Qualified Retirement Plan - Non-Union | 3,312,799 | 880,618 | 4,193,417 |
| Post-Retirement Hospital- ization Coverage | <u>1,783,247</u> | <u>474,028</u> | <u>2,257,275</u> |
| Total | <u>5,096,046</u> | <u>1,354,646</u> | <u>6,450,692</u> |

| | | | |
|---|----------------|----------------|----------------|
| Annual Amortization Divided by 10 Years) | <u>509,605</u> | <u>135,465</u> | <u>645,070</u> |
|---|----------------|----------------|----------------|

| | | | |
|---|---------|---------|---------|
| Annual Amortization during First Three Years | 779,938 | 207,326 | 987,264 |
| Annual Amortization during Remaining Seven Years | 509,605 | 135,465 | 645,070 |

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|---|---|-----------------|
| ADJUSTMENT OF GAS AND ELECTRIC RATES OF |) | |
| LOUISVILLE GAS AND ELECTRIC COMPANY |) | CASE NO. 90-158 |

O R D E R

The Commission has today issued a rehearing Order adjudicating all remaining issues that had been specified in an application for rehearing and granted by the Commission. We now address the arguments raised by Jefferson County, Kentucky ("Jefferson") that the scope of rehearing can be expanded, over three months into the rehearing, to include additional issues. A brief discussion of the events leading up to these arguments is included for clarity.

During and after the April 1991 hearing, the Attorney General, by and through his Utility and Rate Intervention Division ("AG"), and Jefferson filed motions seeking additional documentation and information, as well as an expansion of the issues to be considered on rehearing. The Commission's May 10, 1991 Order determined that the AG and Jefferson had numerous prior opportunities to inspect the requested items, but authorized an additional on-site review of Louisville Gas and Electric Company's ("LG&E") records on the basis that the Commission was willing to consider any additional relevant evidence that might be discovered. However, upon the AG's filing of a subsequent motion

to compel discovery, LG&E renewed its argument that the Commission lacks authority to expand the scope of the rehearing. LG&E claimed that a rehearing is limited by statute to those issues included in a petition for rehearing filed pursuant to KRS 278.400 and granted by the Commission. After further consideration of the arguments and the statutes, the Commission's May 30, 1991 Order stated that the issues to be considered on rehearing could not be expanded four months after the expiration of the statutory period for a party to file, and the Commission to grant, a petition for rehearing.

Jefferson asserts that it can offer on rehearing additional evidence on matters that were not set forth in a petition for rehearing pursuant to KRS 278.400 and granted by the Commission. Jefferson argues that since the Commission has not yet issued a final and appealable Order, any relevant evidence can be introduced on any issue arising from LG&E's rate application, and LG&E bears the burden under KRS 278.190(3) to justify every issue so raised. Jefferson also argues that all the additional evidence set forth in the appendices to its rehearing brief may be offered, pursuant to KRS 278.400, because such evidence could not with reasonable diligence have been offered prior to the rehearing due to the denial of Jefferson's reasonable efforts to obtain the evidence since September 1990.

LG&E argues that the Commission's May 30, 1991 Order properly limited the rehearing issues to the four specific issues granted rehearing in the January 29, 1991 Order. LG&E also states that KRS 278.400 expressly precludes the Commission from subsequently

considering on rehearing any issue that was not granted rehearing within 20 days of its being presented in an application for rehearing.

The Commission well recognizes that, as a legislatively created agency, its authority is limited by statute. The Commission does not have the authority, as urged by Jefferson, to grant rehearing of an Order at any time after the Order was entered. Rather, the Kentucky Legislature has established an orderly, and exclusive, regulatory scheme by which a party may seek rehearing of a Commission Order.

Pursuant to statute, any party seeking reconsideration of a Commission Order must, within 20 days after service of the Order, file an application which "shall specify the matters on which a rehearing is sought." KRS 278.400. Within 20 days after such an application is filed, the Commission must either grant or deny the application, and should the Commission fail to act within that time, the application is denied by operation of law. KRS 278.400. The rehearing statute makes no provision for designating additional rehearing issues four months after the Commission granted rehearing on specific limited issues. Had the Commission not retracted, by its May 30, 1991 Order, that portion of its May 10, 1991 Order which authorized the introduction of evidence on any rate-making issue, the rehearing process would have exceeded the lawful scope established by KRS 278.400.

Further, the May 10, 1991 Order would have allowed Jefferson and the other parties to offer evidence on rehearing that could have been offered on the former hearing, if they had participated


in the document inspection scheduled during the initial hearing phase. Such evidence, however, does not meet the legal standard. The statute permits a party on rehearing to offer only "additional evidence that could not, with reasonable diligence, have been offered on the former hearing." KRS 278.400.

Clearly, the rehearing process is to afford a party an opportunity to show that the Commission's Order contains an error or a mistake, and to allow the Commission to correct it. The rehearing is to reconsider only those matters presented in a rehearing application and granted by the Commission. If, as Jefferson urges, a party can offer additional evidence on any issue impacting rates, a party could offer additional evidence on issues that were specified in an application for rehearing but denied by the Commission. The adoption of Jefferson's position would also result in interpreting KRS 278.400 to provide that any matter not specified in a petition for rehearing shall be deemed granted. The plain language of KRS 278.400 negates Jefferson's position. The Commission affirms its May 30, 1991 Order limiting this rehearing to the four issues enumerated in the January 29, 1991 Order.

IT IS THEREFORE ORDERED that the Commission's May 30, 1991 Order limiting this rehearing to the four issues enumerated in the January 29, 1991 Order be and it hereby is affirmed.

Done at Frankfort, Kentucky, this 30th day of September, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman

Commissioner

ATTEST:


Executive Director